Reforms Represent Common Sense Consumer Protections

April 30, 2009

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FOR IMMEDIATE RELEASE

(Washington DC) Today, Congressman Luis V. Gutierrez (D-IL), Chairman of the Financial Services' Subcommittee on Financial Institutions and Consumer Credit, led the House of Representatives in passing H.R. 627, Credit Cardholders' Bill of Rights Act by a vote of 357 - 70. Introduced by Rep. Carolyn Maloney (D-NY), this legislation would level the playing field between card issuers and cardholders by applying common-sense regulations to ban retroactive interest rate hikes on existing balances, double-cycle billing, and due-date gimmicks. It would also improve the advance notice of impending rate hikes, giving cardholders the information they need and rights to make decisions about their financial lives.

"With more than 640 million credit cards in circulation that account for an estimated $1.5 trillion of consumer spending, the U.S. economy has clearly gone plastic," said Rep, Gutierrez. "But America's love affair with credit cards comes with a hefty price. The average credit card debt among American households has more than doubled over the past decade. Today, the average family owes roughly $8,000 on their credit cards. Meanwhile, as Americans struggle to make ends meet, a growing share of the industry's revenues come from deceptive tactics, such as universal default terms spelled out in fine print — the terms and conditions of which can be changed at any time for any reason with 15 days' notice or less. That is unacceptable."

According to a recent Pew study, 100 percent of the 400 types of credit cards reviewed contained in its terms at least one of the practices that have been found by the Federal Reserve to be unfair and deceptive. And 93 percent of the cards studied by Pew allowed for any-time, any-reason repricing, allowing an issuer to hike up the APR on a consumer's credit card even if they've never missed a payment.

"The Credit Card Holders Bill of Rights represents an important step towards rebuilding the economy in a way that's consistent with American values: rewarding hard work and responsibility instead of high-flying finance schemes," said Rep. Gutierrez. "In the last several months, Congress has devoted significant attention to getting banks lending again. Now it’s time to shift our focus back to the consumers who are struggling through this recession."

In 2008, credit-card issuers imposed $19 billion in penalty fees on families with credit cards, and this year card companies are expected to break all records for late fees, over-limit charges, and other penalties, pulling in more than $20.5 billion. Credit-card debt in the U.S. has reached a record high —nearly $1 trillion — and almost half of American families currently carry a balance. One-fifth of those carrying credit-card debt pay an interest rate above 20 percent.

In addition to applying common-sense regulations that would ban retroactive interest rate hikes on existing balances, double-cycle billing, and due-date gimmicks, the legislation responds to this crisis by writing into law recently proposed Federal Reserve Board regulations. Furthermore, it outlaws credit cards to minors under age 18, bans credit card companies from imposing fees when customers pay their bill, and allows customers set a lower credit card limit.

Rep. Gutierrez also introduced an amendment to the bill to addresses how credit card companies allocate payments when a consumer is carrying balances on his or her credit cards at several different interest rates. Under existing law, when different portions of a consumer’s credit card balance have different interest rates, the credit card issuer may allocate payments in excess of the minimum payment in any manner it chooses. Many issuers allocate these excess payments to the portion of the balance with the lowest interest rate, ensuring that the high interest portions remain on the debtor’s account longer. Rep. Gutierrez' amendment would prevent the card issuers from abusing the introductory rates they offer by allocating payments to the lowest rate balance first while the industry makes their profits from keeping the higher interest rate balances on the consumer’s account, which is common practice today.

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